

Investment Trusts

Walter Carson

Follow this and additional works at: <http://scholarship.law.marquette.edu/mulr>



Part of the [Law Commons](#)

Repository Citation

Walter Carson, *Investment Trusts*, 10 Marq. L. Rev. 38 (1925).

Available at: <http://scholarship.law.marquette.edu/mulr/vol10/iss1/6>

This Article is brought to you for free and open access by the Journals at Marquette Law Scholarly Commons. It has been accepted for inclusion in Marquette Law Review by an authorized administrator of Marquette Law Scholarly Commons. For more information, please contact megan.obrien@marquette.edu.

INVESTMENT TRUSTS

WALLER CARSON*

SINCE the close of the war, interest in financial circles has increasingly turned toward the Investment Trust. The long record of successful operations of companies of this type in England and Scotland has led many to wonder whether there will not be a similar development in this country in the future. During the past two years much has been written upon the subject, "The Investment Trust," by Lawrence M. Speaker, who probably has given the most thorough discussion which has yet been published. In addition, brief articles have appeared from time to time in *Moody's Service*, the *Standard Daily Trade Service*, the *Financial World*, the *Harvard Business Review*, the *Wall Street Journal*, and other similar publications dealing with financial affairs.

The earliest development of the investment trust idea seems to have occurred in Holland in about the year 1820. The plan at that time, which is still in existence today under the name of Bankers Shares, was to spread the risk and secure sounder investments by depositing with a trustee, stocks and bonds of a number of different enterprises, and issuing certificates of interest against the pledged securities. In the usual form today of the "Dutch Type" trust, specified securities are deposited in fixed amounts under trust agreement, and no substitution or change of holdings is permitted.

About twenty years later, we find the British and Scotch beginning to use the device, with the addition of a board of trustees or directors, given authority to dispose of securities and make additional investments. From this time on, the British Type Investment Trust has taken on many of the attributes of the public utility holding company, retaining the principle of wide diversification, avoiding overhead by eschewing control and management, but vesting very wide discretionary powers in the hands of its administrators.

At the present time the British Investment Trust operates as a holding company, or possibly better, a mutual investing association, issuing bonds and preferred stock against its assets, and normally paying in dividends only a portion of its receipts and reinvesting the remainder as a growing reserve against times of stress. It enables the funds of a wide group to be administered by a board of specialists who possess and

* The writer has organized the only two investment trust companies existing in Wisconsin and predicts growing favoritism toward this line of finance.

develop exceptional ability in handling funds along these lines. Usually arrangements are made with a bank or trust company to undertake the physical safekeeping and handling of the investments of the company; competent statistical service is secured; and the directors are relieved of all duties but the study and supervision of investment conditions and security values. In practice, the British have been able to maintain an average overhead, including salaries and compensation of directors, of about one half of one per cent on the total funds in use. Earnings have been surprisingly large in consideration of the conservative nature of the investment.

The form of organization of the investment trust seems of secondary importance, so long as it provides for the selection and appointment of competent administrators, careful restriction of the functions of the company to the investment of its own funds, limitation of salaries and overhead, and wide diversification. With competent administration and wide diversification, investment need not be restricted to high grade securities. At the present time, in the United States, the few companies already organized are divided almost equally in type between the trust and the corporation. The International Securities Trust of New York, was organized in 1921 with a board of fifteen trustees; the Massachusetts Investors Trust, a more recent one, has a board of three; the Security Investing Company has stated its intention of applying for a banking charter under the laws of New York; the Wisconsin Investment Company and the Northwest Security Investing Company are corporations under the laws of Wisconsin; and an undoubtedly large number of associations, employee thrift clubs, and so forth, are being operated by investment houses and banks for the benefit of their employees only.

The advantages of supervisory companies of this type are many, and their intelligent development can provide a very desirable means of safeguarding the funds of investors, encouraging thrift, and fighting fraud; the weaknesses are obvious, and can be easily guarded against. The interest of attorneys in providing articles of organization which guard against these weaknesses, together with the selection of competent men as administrators, should go far toward making the investment trust in this country the desirable financial institution it has been for many years in England.